THE AMERICAN GOLD FUND OF 1914

It is a well-understood principle of economics that trade between two parties, in order to be successful, must be based upon mutual benefits. The exchange of commodities between nations has been developed on the basis of the one furnishing the other with supplies which one of the nations did not produce in sufficient quantity, or not at all, and of which the other had a surplus. When the one has furnished the other more in value than it has received in return, then the difference, commonly known as balance of trade, must be settled for with a commodity satisfactory to the creditor nation. Gold having a fixed monetary value based upon actual weight and fineness has formed a satisfactory means for the adjustment of such differences. In the evolution of international finance it has, however, become a means of last resort rather than of primary usefulness. Gold as a commodity has inherent value for settlement of obligations between nations; but on account of the fact that of itself it has no particular earning power and is not a convenient form of exchange, but expensive to handle, other and more convenient, as well as more profitable, means of settlement have been evolved. The older nations of the world naturally have reached a state of development which has made it possible for them to furnish to the newer countries more in commodities than it is necessary for them to receive in return. The newer nations, on the other hand, have created obligations which have had to be provided for in a manner satisfactory to their creditors. In our own development we have consequently found it necessary to give to the Old World our promise to pay at a future date. This has been done by means of the issuing of securities. A great deal of foreign capital was loaned to the farmers of the United States, who, in turn, secured the lender by giving mortgages on their property.

As our country developed we found it necessary to finance public undertakings, and here again we gave to the European creditor obligations in the form of municipal, state, or government bonds.

As our industries began to grow, foreign investors took from us stocks and bonds issued by our railroads and our manufacturing concerns. According to figures recently issued by the Chief of the Bureau of Foreign and Domestic Commerce, in Washington, it is estimated that the United States of America owes no less than $7,000,000,000, distributed among the great creditor nations as follows:

England	$4,000,000,000
Germany	1,250,000,000
France	1,000,000,000
Holland	650,000,000

On the other hand, European securities are to some extent held by American citizens. This is due to the fact that many of our citizens of means, being natives or descendants of natives of some European country, and knowing the stability and security of certain investments, prefer to hold at least a portion of their wealth in this form. Making allowance for this offset, our net obligations to Europe at the outbreak of the war of 1914 were estimated as having been at that time at least $6,000,000,000. The importance of these figures, of course, lies in the fact that if at any time the European investors are in immediate need of funds, vast quantities of American securities are likely to be thrown upon the open market. This is what actually took place for a week or ten days prior to the declaration of war, which naturally resulted in a panic on the New York Stock Exchange and was reflected by similar occurrences in all of the financial centers of our country.

The market value of American securities went lower and lower and the means of making payment daily became more difficult, so that it was found necessary to close the Stock Exchange entirely. Our total demand obligations resulting from these security sales were estimated in August, 1914, all the way from $350,000,000 to $500,000,000, which would indicate that only 6–8 per cent of American securities held abroad were disposed of by the European holders at that time. The thought, therefore, of what might take place, were this unloading permitted to continue, was sufficient to fill all concerned with consternation. It must be taken into consideration further that by our system of banking under our national bank law it had been made necessary for us to create obligations

in Europe, more particularly in London, covering importations from practically all parts of the world. These, of course, we had been meeting largely by the export of our own products. Such export, however, was immediately brought to a standstill because of the lack of shipping facilities. Definite figures as to the amount of our obligations of this character are not at hand, but those familiar with the situation estimated them on August 1 to be approximately $250,000,000. In addition, there were outstanding obligations on the part of the city of New York amounting to approximately $80,000,000. This amount had been borrowed abroad by the city of New York against short-time notes, maturing before the end of the year 1914. It can therefore readily be seen that the financial interests of our country were placed in a position where they had to meet a situation of stupendous proportions. As a result of this condition the demand for exchange on the European financial centers became so great that rates rose to unprecedented heights. Sterling exchange, having a par value of $4.8666, was dealt in at prices as high as $6.50 and in several isolated cases even at $7 per pound sterling.

Our government, realizing the seriousness of the situation, called a conference of the leading men of our nation interested in foreign trade and finance. This gathering was held in Washington under the chairmanship of Hon. W. G. McAdoo, secretary of the Treasury, on August 14, 1914. Committees on transportation, insurance, and foreign exchange were appointed. Upon recommendation Congress passed a bill creating a Bureau of War Insurance, under the administration of the Department of Commerce. Legislation with regard to the establishment of a merchant marine was enacted and a modification of the regulations governing American-owned vessels, flying the American flag, was secured. This soon resulted in a movement of our foodstuffs, which were wanted in large quantities by the belligerent nations.

In addition, Great Britain and France sent their own vessels for these commodities. A settlement of our obligations in this manner, however, was naturally a slow process and London, in particular, was demanding gold. It was, of course, agreed by all concerned that our credit must be maintained. Some, however, took the

position that only obligations past due, or of a maturity in the not distant future, should be provided for, their contention being that the stocks and bonds which had been unloaded on our markets and were taken by us under compulsion were not yet due, and that although we were perfectly willing to pay for them we must be allowed reasonable time to make payment, not in gold, but by the shipment of commodities. Banking institutions had undertaken to make shipments of gold to London on their own account, but the ship carrying this precious cargo returned to America without having reached a European port. The resourcefulness of Great Britain, however, was soon demonstrated. Our government, as well as our financiers, were soon advised that gold shipped to Ottawa, Canada, and there delivered to the Treasury Department, could be accounted for by a counter-credit in London in pounds sterling at the market value. This resulted in a considerable movement from American banking institutions to Ottawa.

Still the demand for more of the metal continued. As a result, the Secretary of the Treasury called a conference of the leading bankers of the nation, which was held in Washington under date of September 4, 1914. Mr. James B. Forgan, president of the First National Bank of Chicago, proposed the formation of a gold fund of $150,000,000, to be subscribed by the banks of our country, especially those located in reserve and central reserve cities, of which amount $25,000,000 was to be deposited immediately in the depository of the Bank of England in Canada, each bank contributing to be given a participation deposit receipt. The remainder of the subscribed amounts was made subject to call by a committee of New York bankers appointed by the New York Clearing House Association. This committee was also charged with the duty of handling the fund, fixing the price at which foreign exchange was bought and sold, and was authorized to make requisition from time to time upon the respective contributing cities through local committees for the appointment of which provision had been made. The said local committees were given the supervision in their respective cities of the shipments and general withdrawals of gold. The Federal Reserve Board was requested to take the necessary steps to ascertain the amount of gold which would be subscribed

by the banks throughout our country and to use its influence to have the said banks contribute their proper pro rata.

The members of the committee which formulated this scheme or plan were James B. Forgan, Chicago, chairman; S. Wexler, of New Orleans; Benjamin Strong, Jr., of New York; Thomas P. Beal, of Boston; and L. L. Rue, of Philadelphia. The committee appointed by the New York Clearing House Association consisted of the following: Albert H. Wiggin, chairman; William Woodward, J. S. Alexander, Francis L. Hine, Benjamin Strong, Jr., and F. A. Vanderlip, all of New York City.

This committee, under date of September 19, 1914, recommended that the amount of the gold fund should be made $100,000,000, instead of $150,000,000, as originally proposed, since the New York banks had in the meantime made arrangements to take care of the $80,000,000 maturing New York City warrants already referred to. Of the $100,000,000, however, $25,000,000 was to be made immediately available. Under date of September 22, 1914, this committee decided that the New York banks should contribute 45 per cent of the total amount, or $45,000,000, and the balance was apportioned as shown in Table I.

TABLE I

SUBSCRIPTIONS TO THE GOLD FUND

COLORADO:		
Denver	$1,000,000	
Pueblo	100,000	
		$1,100,000
CALIFORNIA:		
Los Angeles	1,000,000	
San Francisco	3,250,000	
		4,250,000
DISTRICT OF COLUMBIA:		
Washington		750,000
GEORGIA:		
Savannah	100,000	
Atlanta	500,000	
		600,000
INDIANA:		
Indianapolis		506,000
IOWA:		
Cedar Rapids	50,000	
Sioux City	100,000	
Des Moines	200,000	
		350,000

ILLINOIS:		
Chicago		$16,000,000
KANSAS:		
Topeka	$47,000	
Wichita	50,000	
		97,000
KENTUCKY:		
Louisville		500,000
LOUISIANA:		
New Orleans		600,000
MISSISSIPPI:		
Bay St. Louis		4,000
MASSACHUSETTS:		
Boston		7,000,000
MARYLAND:		
Baltimore		1,000,000
MINNESOTA:		
St. Paul	1,000,000	
Minneapolis	1,249,710	
		2,249,710
MISSOURI:		
St. Joseph	150,000	
St. Louis	5,000,000	
Kansas City	1,000,000	
		6,150,000
MICHIGAN:		
Detroit		760,000
NEBRASKA:		
Omaha	750,000	
Lincoln	50,000	
		800,000
NEW YORK:		
Albany	50,000	
Hoosick Falls	5,000	
Syracuse	100,000	
New York City	45,000,000	
		45,155,000
OHIO:		
Columbus	506,000	
Cleveland	1,805,000	
Cincinnati	1,500,000	
		3,811,000
OREGON:		
Portland		1,500,000
OKLAHOMA:		
Muskogee	50,000	
Oklahoma City	50,000	
		100,000
PENNSYLVANIA:		
Philadelphia	8,000,000	
Pittsburgh	3,000,000	
		11,000,000
TEXAS:		
Dallas	500,000	
Ft. Worth	50,000	
Galveston	100,000	
Houston	500,000	
San Antonio	153,650	
Waco	43,000	
		1,346,650

UTAH:		
Salt Lake City		$ 250,000
VIRGINIA:		
Richmond		750,000
WISCONSIN:		
Milwaukee		1,000,000
WASHINGTON:		
Seattle	$750,000	
Spokane	300,000	
Tacoma	250,000	
		1,300,000
Total		$108,929,360

It was realized, however, that before all of the machinery could be put into working order considerable time would be required. It was consequently decided that nine of the leading New York banks should immediately deposit an advance instalment of $10,000,000 gold, which was done as follows:

Chase National Bank	$1,000,000
National Bank of Commerce	1,000,000
First National Bank	1,000,000
National Park Bank	1,000,000
National City Bank	$2,000,000
Hanover National Bank	1,000,000
Guaranty Trust Co.	1,000,000
Central Trust Co.	1,000,000
Bankers Trust Co.	1,000,000

This amount the committee at once shipped to Ottawa, securing credit for it in London. This made it possible for the committee immediately to supply demands, which was done under the following rules and regulations:

1. All applications must be on forms which will be provided by the committee, which has arranged for quarters at the New York Clearing House, where such forms may be obtained.

2. All applications must be made before 12:00 M. each day and must be accompanied by a detailed explanation of the purposes for which the exchange is required. No applications will be received on Saturdays.

3. The committee will meet each day (Saturdays excepted) at 3:30 P.M. to consider applications, which, to the extent granted, will be at fair rates for the day, as may be determined by the committee.

4. The committee reserves the right in sole discretion to reject any or all applications, or to allot a reduced amount, or to change the method of fixing its rates.

5. For the present the committee will not consider applications for cable transfers in amounts of less than £1,000, but applications from all parts of the United States will be received.

6. Payments for exchange must be made by certified checks drawn to the order of "Gold Fund Committee" on New York banking institutions upon acceptance of allotment and prior to delivery not later than 10:30 A.M. the following day.

7. No brokers will be used by the committee and it will be its endeavor to sell exchange directly to those having payments to make abroad without intermediaries.

8. Such profits as may be realized after payment of necessary expenses are to be prorated among all the institutions which contribute to the fund.

Those who were familiar with financial conditions abroad realized that England's demands for gold were based on sentiment rather than upon actual needs. Mr. Forgan, in proposing the formation of the gold pool, expressed it as his opinion that when it became known that gold was actually available, little would be called for. This view was justified by the actual results.

GOLD FUND

On September 30, 1914, nine New York banks paid in to the Gold Fund Committee $10,004,221.76, which was turned over to the following banks to be converted into sterling, for the use of the Gold Fund Committee:

Bankers Trust Co.	$ 5,004,221.76
National City Bank	5,000,000.00
Total	$10,004,221.76

Bankers Trust Co.:

$3,600,000 coin 9/10 fine=193,487.89 oz. at 76*s.* 0½*d.*		£ 735,657. 1.8
$1,404,221.76 bars 11/12 fine=74,104.181 oz. at 77*s.* 6*d.*		287,153.14.0
Total		£1,022,810.15.8
Paid and charged to expense the following in connection with above:		
Cooperage	$ 204.75	
Premium gold bars	561.69	
Express and insurance	3,753.30	
Total	$4,519.74	

National City Bank:

$5,000,000 coin 9/10 fine=268,733 oz. at 76.0 1*s.* 2*d*		£1,021,748.19.8
Total proceeds in sterling		£2,044,559.15.4
Paid and charged to expense the following in connection with above:		
Cooperage	$ 200.00	
Express and insurance	3,750.00	
Total	$3,950.00	

This is all the gold which the committee actually shipped to Canada for account of the Bank of England. Of this total of £2,044,559.15.4, to which must be added £2,115.0.5 interest earned on balances in London, only £718,850.14.3 was disposed of to applicants. The remainder, £1,327,824.1.6, had to be sold through other channels, principally in the open market.

The total amount of gold shipped was $10,004,221.76, which resulted in a credit in London of £2,044,559.15.4 at an average rate of $4.8933. To this must be added $10,285.33, interest earned, or £2,115.0.5. This total of £2,046,674.15.9, was disposed of at an average rate of $4.9135, or $10,056,307.00, resulting in a profit on exchange amounting to $41,799.91.

To this must be added interest on gold fund balances kept with New York banks amounting to $25,010.48, making a total income of $66,810.39, from which must be deducted the amount of $16,542.67, the amount of expenses incurred, leaving a net profit resulting from all of the operations of the fund of $50,267.72, or $1.84 per thousand on the total amount actually contributed, $27,232,340.00.

The total expenses of the administration of the gold fund have been $16,542.67, of which $11,205.81 was cost of transporting gold to New York and Ottawa, and the balance was for cablegrams, clerk hire, printing, stationery, postage, and like items. No fees have been paid to any member of the committee and Messrs. White & Case, who acted as counsel, declined any compensation.

Of the total amount subscribed, $108,929,360, only the first instalment of 25 per cent was called for under date of October 14, 1914. The repayment of this amount was effected as follows:

Total amount subscribed			$108,929,360
First instalment of 25 per cent called October 14, 1914		$27,232,340	
First repayment of 10 per cent on first instalment made October 28, 1914	$2,723,234		
Second repayment, November 17, 1914	2,723,234		
Third repayment, December 7, 1914	2,723,234	8,169,702	
		$19,062,638	

Balance due subscribers repaid February, 1915, as follows:	
1. By federal reserve bank, New York, check to the order of contributor	$ 7,658,295.75
2. By federal reserve bank, New York, check to the order of contributor's New York correspondent	9,827,420.75
3. By transfer of gold through Sub-Treasury	1,576,921.50
	$19,062,638.00

The committee's checks for profits due subscribers were forwarded March 12, 1915, aggregating	$ 50,267.72

Applications received by the committee were as follows:

For drafts	107	£1,633,060.17.6
For cables	34	1,522,830. 3.4
	141	£3,155,891. 0.10

Allotments were made as follows:

Drafts	97	£1,496,811. 4. 1
Cable	31	1,441,830. 3. 4
Total	128	£2,938,641. 7. 5

While only the following were finally accepted and completed:

Drafts	51	£ 752,063. 1. 5
Cable	21	1,294,611.14. 4
Total	72	£2,046,674.15. 9

Proceeds:

Drafts	51	£ 752,063. 1. 5	3,707,162.14
Cables	21	1,294,611.14. 4	6,349,144.86
Total	72	£2,046,674.15. 9	$10,056,307.00

Of these, however, only 63, with a total of £718,850.14.3, were applications, the remaining 9, with a total of £1,327,824.1.6, were other and open-market transactions.

It is not practicable to state how much of the gold fund was made use of by the different states. The headquarters of the committee being in New York, applications were necessarily received there, and in almost all instances were made through New York correspondents or representatives. It would not be possible to ascertain for whom the exchange was intended. It is, of course,

known that much of it was for other sections of the country than New York.

It should be added in conclusion that although the Gold Committee shipped only $10,004,221.76 to Canada for account of the Bank of England, banking institutions in the United States of America shipped gold on their own account, so that the total gold movement from our country to Ottawa is estimated at $100,000,000 to $125,000,000. Exact figures are not available, inasmuch as the Canadian government considers the matter a secret to be divulged only by the Bank of England.

JOHN J. ARNOLD

FIRST NATIONAL BANK
CHICAGO, ILL.